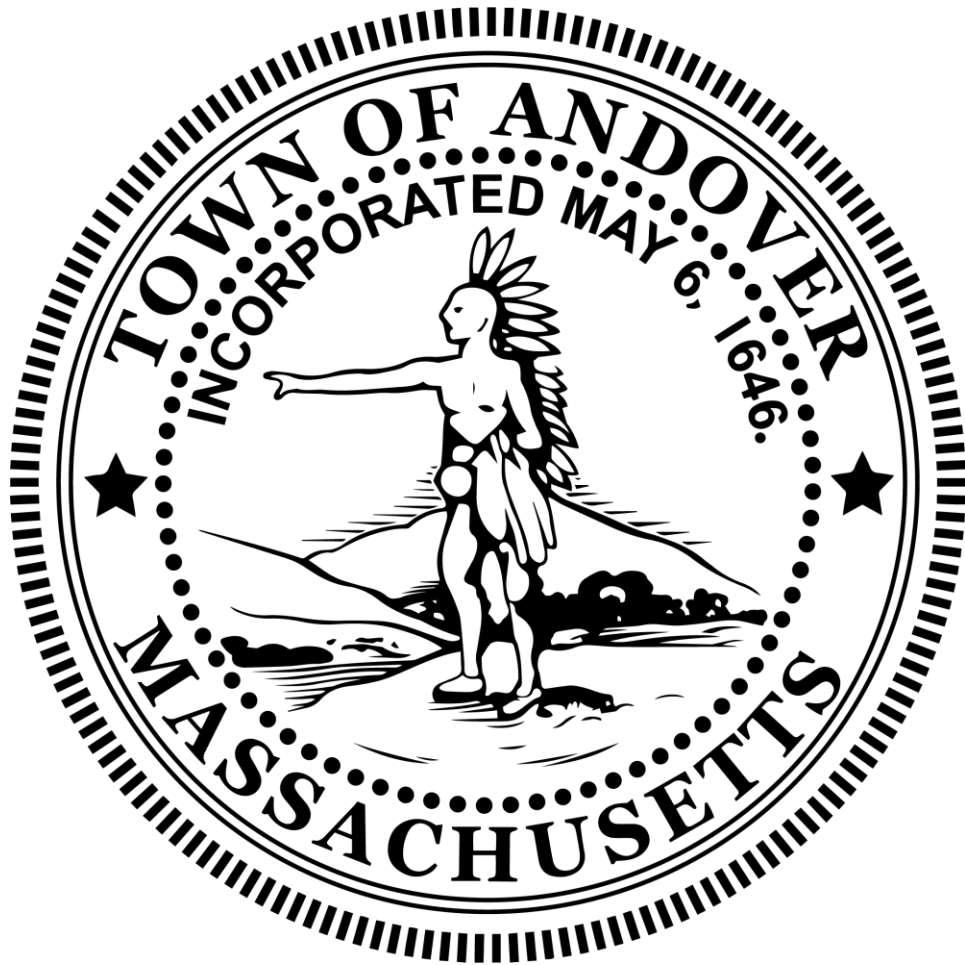
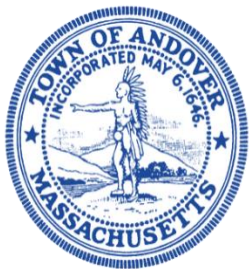


FINANCE COMMITTEE
SUPPLEMENTAL
INFORMATION
for the
APRIL 29, 2024
ANNUAL TOWN MEETING





TOWN OF ANDOVER
36 BARTLET ST.
ANDOVER, MA 01810
www.andoverma.gov

April 19, 2024

To the Citizens of Andover:

The Finance Committee Report for the April 29, 2024 Annual Town Meeting was sent to the printer the first week of April. A copy has been available online since April 10th (www.andoverma.gov/FinComReport) and hard copies are in the process of being mailed to each home. However, since the book went to print, it has come to the attention of the Finance Committee that members of the public may be seeking to increase the school budget, on the floor of Town Meeting, by an additional \$2.7 million.

It is the right of citizens, who are convened at Town Meeting, and thus acting as the legislative body of the Town, to make amendments to the budget; and it is the role of the Finance Committee to advise that body. As such, at the Finance Committee Meeting on April 17, 2024, we discussed the likelihood that citizens would be coming to Town Meeting without advanced knowledge of possible floor amendments and the potential impacts they may have on town operations and individual tax bills. Therefore, to ensure complete transparency and allow citizens to enter the meeting fully informed, the Finance Committee voted 6 to 1, (with one member absent) to provide this supplemental mailing. We want to be clear that the Finance Committee has not taken a position on potential amendments. However, the Finance Committee has reviewed the Town Manager's proposed Fiscal Year 2025 budget (as printed in Article 4 in the Finance Committee Report) and unanimously recommends approval. But given that citizens will not have the opportunity to receive input from the Finance Committee prior to Town Meeting on any potential amendments, we wanted to provide some insight as to the possible scenarios that may unfold so you can be prepared to ask questions, engage in civil debate, and ultimately cast your vote.

The first thing to understand is that state law requires that all towns pass a balanced budget. For Andover, the 2025 fiscal year begins on July 1, 2024. Unlike the federal government, local governments are not allowed to deficit spend. Therefore, if an amendment is proposed on the floor of Town Meeting to raise the school budget by an additional \$2.7 million, that money must come from somewhere. The state carefully watches how a town projects revenue and must approve a town's revenue assumptions prior to certifying the tax rate. Without additional revenue, the \$2.7 million would have to come from cuts to the Town's operations or from a voter approved budget override. The latter would increase each homeowner's tax bill. It is important to note that an operational override stays on the property tax bill forever, unless an underride is subsequently voted on and approved by residents. This is different from the debt exclusion overrides we have passed to build schools. Those overrides come off the tax bill as the debt is paid down. Operational overrides are passed to cover ongoing annual expenses that are not covered by anticipated revenues.

From a functional perspective, there are a few ways that an increase to the school budget could be approved at Town Meeting:

- 1) An amendment could be brought to increase the school budget through a contingent appropriation. This would require an operational override. If Town Meeting approved such an amendment, the new budget is not passed until there is a favorable majority vote at the ballot box. It would be at the Select Board's discretion to call a special election for the purpose of putting that question before the voters. If voters approve the override at the ballot box, the school budget would effectively be increased by the \$2.7 million. If the vote at the ballot box fails, then the Town would proceed with the original budget proposal in Article 4 (without the \$2.7 million) as presented in the Finance Committee Report.
- 2) If a motion were brought to amend the Town's operating budget in order to appropriate an additional \$2.7 million to the schools, then the budgets in other Town departments would need to be cut. The Finance Committee anticipates that if this is proposed, Town officials will explain to voters where the cuts would likely be made and how that would impact Town services.
- 3) Lastly, there is always the possibility that Article 4, which is the total operating budget for Andover, including school and Town operations, does not get approved by voters. If this happens, the Town will not have a budget for the 2025

fiscal year. This would then require that a Special Town Meeting be called at some point on or before June 30, 2024 to approve a balanced budget. If a budget is not approved by July 1, 2024, then Town departments and services would essentially stop operating.

The Finance Committee would once again acknowledge all citizens' rights to come to Town Meeting and conduct business and vote in what each believes is in the best interests of the Town. We do urge every citizen to attend Town Meeting, as the decisions made there will impact every household in Andover. We encourage citizens to come informed, ask questions, and carefully and respectfully debate these issues.

*It is important to note that Paul MacKay voted no on the motion for the Chair and Vice-Chair to send out this letter on behalf of the Finance Committee due to time constraints not allowing the other members to review it. Additionally, Aaron Buzay was absent from the Finance Committee Meeting on April 17, 2024 when the contents of this letter were discussed.

The Finance Committee

Paula Colby-Clements, Chair

Kim Perry, Vice-Chair

Aaron Buzay
Paul MacKay

Yican Cao
Brian Major

William Haskell
Andrew McBrien

Frequently Asked Questions – Town Meeting and the Operating Budget

Prepared by the Town of Andover and Andover Public Schools

What is Town Meeting's role in the budget?

Town Meeting must approve an operating budget by June 30th of each year. That budget must be balanced – which means that expenses must not exceed available revenue.

How are the Town and School budgets determined?

The Town has a financial plan that serves as the foundation for budget planning and long-term forecasting. By establishing benchmarks for annual budget increases, the Town can build a sustainable funding model that preserves services. The financial plan also identifies future threats to Town finances and serves as a planning tool to mitigate associated impacts in future budget years. Every year, the Select Board, Finance Committee and School Committee work together with the Town Manager and Superintendent of Schools and their respective teams to review the plan and adjust as needed.

What if Town Meeting votes to disapprove the budget?

If Town Meeting votes to disapprove the budget, a Special Town Meeting will be required prior to June 30, 2024 to pass a budget.

Can the Town increase revenues to increase the budget?

The recommended FY2025 Town and School operating budget utilizes all available tax revenue –including excess levy capacity from FY2024, less \$300,000. Other revenues must be certified by the Department of Revenue to be increased.

Can Town Meeting vote to increase the budget?

If Town Meeting wishes to increase the budget more than the \$300,000 available levy capacity, it would require an amendment to the budget that is contingent on a Proposition 2 ½ Override in order for a balanced budget to be presented to the Department of Revenue. A Proposition 2 ½ Override is a vote that allows the Town to increase the tax levy (the total amount of property tax collected) beyond what is currently allowed by law to increase revenues to the Town. Alternatively, Town Meeting may vote to reduce any budget included in Article 4 in order to increase another budget included in Article 4. Under this scenario, Article 4 would remain balanced and not require an override. However, the impacts of this approach cannot be defined until the point at which a motion is made and the budgets (to be increased or decreased) are identified.

What is a contingent appropriation and what happens if it is approved by Town Meeting to increase the budget?

A contingent appropriation is an appropriation that relies on both Town Meeting approval and a ballot box vote to be approved. If the contingent appropriation to increase the budget is approved by Town Meeting, the Select Board would have to vote to place the Proposition 2 ½ Override on the ballot, which would then be voted on by the Town at the ballot box. Following a successful vote, the contingent appropriation would then be incorporated into the operating budget. If the ballot box vote fails, the funds are not appropriated, and not available for the budget.

How much would a contingent operating override cost the average taxpayer?

It is estimated that for every \$1,000,000 added to the tax levy, the average taxpayer pays approximately \$72. This increase would continue indefinitely, unlike with debt exclusions, where tax increases end once the debt is paid off.

What is Free Cash and what can it be used for?

Free Cash is the Town’s fund balance – it is a reserve account that is used for one-time expenses or capital expenditures. The Department of Revenue recommends that these funds not be used for salaries or operating expenses. Free Cash also serves as the Town’s reserve fund in case of unforeseen events or emergencies.

What happens if we use Free Cash or another reserve to pay salaries?

While the cost of those salaries would be covered for one year, using reserves to fund recurring expenses is not sustainable. Over time, reserves would be depleted and the necessary reductions to balance the budget would most likely be far greater than what has been considered as part of the FY2025 budget. Additionally, funds may not be available to offset unforeseen expenses or costs associated with the Town's responses to emergencies or weather events. This could result in a revenue deficit which would have significant impacts on the Town and School operating budgets.

Does Andover have too much in Free Cash or reserves?

Reserve funding is a key indicator of economic flexibility and a metric that bond rating agencies look at when evaluating our credit. Historically, Andover’s Free Cash balance has been lower than comparable communities. Andover’s current Free Cash balance is approximately 6.4% of the operating budget – the average of comparable AAA rated communities is 10% of the operating budget.

What if there is additional Chapter 70 funding approved in the State Budget?

The Town’s long-term financial plan provides for budget planning for both Town and School operating budgets despite increases or decreases in state aid. This ensures the ability to adequately fund the Town and Schools without relying on changes in funding formulas. The final state aid amount is typically not known until after July 1.

Can the Town change or increase assumptions for Local Revenues to increase available revenue for the budget?

All local receipt revenue projections must be approved by the Department of Revenue as part of the annual tax certification process. The Town cannot decide to increase these revenues without approval and certification.

Can Town Meeting decide how funds are spent?

Town Meeting does not have the authority to dictate how, or if, appropriated funds are spent.

Why are some positions within the School Department being eliminated or transferred?

The School Department has reduced the number of positions in the district by 34.25 FTEs. Over the last 10 years, enrollment has decreased by approximately 11% or 662 students. In addition, compensation increases agreed to in recently settled collective bargaining agreements are significantly higher than what can be sustained in a level service budget increase.

The Town was recently notified by the Massachusetts School Building Authority that the West Elementary/Shawsheen Preschool project would receive an additional \$8 million. Can those funds be used for the School budget?

No, the additional reimbursement from the Massachusetts School Building Authority is a result of project cost escalations. The Town will receive these funds as an additional project grant for actual costs incurred. This will offset borrowing costs and debt service the Town would have to otherwise incur.

If Town Meeting increases the School budget, will teachers whose jobs were eliminated or transferred be restored?

Not necessarily – the district will continue to make staffing decisions based on enrollment and needs of the student population.

***Town of Andover
36 Bartlet Street
Andover, MA 01810***

**US POSTAGE
PAID
ANDOVER, MA
PERMIT NO. 41**

******ECRWSS
RESIDENTIAL CUSTOMER
ANDOVER, MA 01810**